

2. It is obvious that no investment of the successive instalments should be made in securities at a premium, since if this rule were not observed we should require a sinking fund within a sinking fund. Nor, again, for the same reason must

¹¹ "wasting" securities be selected.

3. The rate of interest at which the fund is created should

be a low one, say, at present, 3 to 3½ per cent, and if, for

example, the rate of 3½ per cent be chosen, the rate actually realised

throughout the duration of the term—if we regard income tax

at 1s. alone without contemplation of possible depreciations or

losses—should be £3 8s. 5d. per cent.

Hence 3 per cent net

over a lengthened period appears to be the highest suitable

rate. Ordinary shares in

companies are not, as a rule, appropriate as investments on account of the fluctuations in

the dividends due to trading

vicissitudes and speculation.

Securities bearing a fixed rate of interest form the preferable

choice.

4. The interest, as it is periodically

received upon the several

investments, must at once (or as promptly as possible) be

similarly reinvested at the same

rate, so that compound

interest—which is of the essence of the process—may be

secured. Now in most instances

some delay will occur in

these reinvestments, and this

consideration confirms the

condition that the rate on which the fund is based should be

low, so that any higher rate obtained at any time may com

pensate for loss of interest while fresh investments are being

arranged.

5. It is a most important caution to

enforce that the sinking

fund should never be invested in the business which it is

intended to protect. In commercial

and financial institutions
the reserve fund (which corresponds in its
functions to a sinking
fund) should never be accumulated by
being employed in the
transactions of the business they
conduct. For, obviously,
the fund will then be subjected to the
vicissitudes to which
that business is liable, and the very
object of the fund—the
restoration of losses which may be
experienced in the manage
ment of the institutions—may thus be
wholly or largely defeated.
This proposition is fundamental. (I
have already insisted
upon this condition ; but the question
merits emphasis.)